QUIZ 2: ANSWER OUTLINE

YOUR NAME: ____

EE/Econ 458 **L. Tesfatsion/S09**
Quiz 2: 6 Questions (6 Points Total) **Date: Tues, Feb 17, 2009**

QUIZ INSTRUCTIONS:

- **(1) Please fill in your complete name in the indicated space at the top of this quiz sheet. BE SURE TO WRITE CLEARLY.**

- **(2) For each question below, circle the answer that you think is correct.**

- **(3) Each question Q1 through Q6 is worth 1 point.**

Q1. **A key distinction between BILATERAL trades and MEDIATED trades is that ______**

- **A. in mediated trades a dispute has arisen between the buyer and seller requiring outside intervention.**
- **B. in bilateral trades the buyer purchases directly from the seller whereas in mediated trades the buyer and seller interact through a third party (the mediator).**
- **C. bilateral trades involve only one sale whereas in mediated trades there is always an intermediate sale to an outside party (the mediator).**
- **D. bilateral trades take place in two stages whereas mediated trades take place in one stage.**

Q2. **According to definition, key distinctions between a BROKER and a DEALER include**

- **A. brokers buy low and sell high whereas dealers sell low and buy high.**
- **B. brokers determine the purchase and sale prices for the items they broker.**
- **C. dealers keeps an inventory of the items in which they deal.**
- **D. dealers determine the purchase and sale prices for the items in which they deal.**
- **E. Both C and D.**

Q3. **By definition, a seller's TRUE (INVERSE) SUPPLY SCHEDULE ______.**

- **A. gives the minimum sale price that the seller would be willing to accept for each successive quantity unit he supplies.**
- **B. gives the maximum sale price that the seller would be willing to accept for each successive quantity unit he supplies.**
- **C. gives the maximum amount of quantity that the seller would be willing to buy for each successive unit price.**
- **D. gives the minimum amount of quantity that the seller would be willing to supply for each successive unit price.**

Q4. A COMPETITIVE MARKET CLEARING (CMC) POINT ______.

A. is a quantity and unit price combination at which sellers achieve their maximum possible extraction of net seller surplus and buyers achieve their maximum possible extraction of net buyer surplus.

B. is a quantity and unit price combination that results in the maximum possible extraction of total net surplus in a market.

C. is an intersection point of the true total supply and demand schedules (with vertical segments included).

D. all of the above.

E. all but A.

Q5. By mathematical definition, the PRICE ELASTICITY OF DEMAND for a commodity is ______.

A. the rate at which demand for the commodity changes over time in response to changes in the general price level.

B. the percentage change in quantity demanded per the percentage change in its unit price.

C. the change in the price of the commodity in response to a change in the quantity demanded.

D. the degree to which people change their consumption of the commodity when the price of all other commodities increases.

Q6. By definition, the COURNOT DUOPOLY MODEL assumes that two firms ______ whereas the BERTRAND DUOPOLY MODEL assumes that two firms ______.

A. efficiently set price equal to marginal cost; monopolistically set marginal revenue equal to marginal cost.

B. maximize their joint profits through quantity collusion; maximize their joint profits through price collusion.

C. engage in price competition; engage in quantity competition.

D. engage in quantity competition; engage in price competition.

Answers: Q1-B, Q2-E, Q3-A, Q4-E, Q5-B, Q6-D